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UNIVERSITY OF ALBERTA  
FACULTY OF BUSINESS ADMINISTRATION  
AND COMMERCE


FRANCIS G. WINSPEAR COLLECTION



## ANNUAL REPORT

CLAREPINE DEVELOPMENTS LTD.

November 30, 1980



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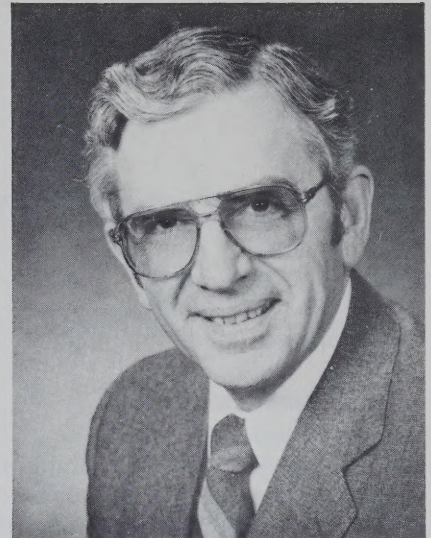
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## PRESIDENT'S REPORT TO THE SHAREHOLDERS

Gross revenue for 1980 was \$3,606,000 against \$2,914,000 for 1979. Cash flow from operations was \$859,000 (22.9¢ per share) compared to \$621,000 (16.5¢ per share) for 1979.

The past year was the most active in our history and we believe it is fair to say that it was one of outstanding accomplishment. It has taken a year of hard work and total commitment by all Clarepine and subsidiary company personnel to complete the acquisition and reorganization of Strathcona Resource Industries Ltd. (formerly Kaps Transport Ltd.).



### **SILICA DIVISION:**

This division has and is continuing to exceed our forecasts in spite of the oil industry and housing downturn. A good deal of planning and keen sense of dedication by our operating personnel has been required to keep our products and service up to the high standard we have set for ourselves.

Our staging and phasing in of increased capacity has allowed us to increase production to meet market demand without a major shutdown. An engineering study is currently underway which is examining an alternative method for processing our silica. This method if successful would substantially improve productivity while still utilizing our present facilities.

It is generally accepted by Government and Industry that natural gas prices will rise in excess of 100% over the next five to seven years. Recognizing this fact and our continuing need for fuel to dry our silica, we have initiated an exploration program which will see us drill a minimum of two exploratory wells per year for the next five years. Assuming an average industry success ratio it will ensure the company of long term fuel supply and a reasonable rate of return on our investment.

### **STEEL FABRICATION DIVISION:**

The name of our fabrication division has been changed from Kaps Manufacturing Limited to KML Custom Fabricators Ltd. This 32,000 square foot shop with 7,000 square feet of attending office space is located at 9325 - 51st Avenue, Edmonton on 6.88 acres of land. This year we will be extending the roof over an additional 8,000 square feet to improve our cutting, rolling and preparation area.

With the Province of Alberta having active agricultural, forestry, coal mining, tar sands mining, petroleum refining, insitu heavy oil recovery, tertiary recovery programs, petrochemical and conventional oil and gas industries, we are confident that we will find our unique place. We will strive to build our business in sectors of industry where the profit margins are reasonable and additional growth can be achieved over time by improving productivity and service. In areas where vertical integration is possible we will give consideration to growth either by internal development or by acquisition.

### **TRANSPORT:**

We are presently operating seventeen trucks equipped for heavy equipment hauling and six tractors with bulkers, moving our own silica products. We are pleased to report that although this division is considerably reduced in size, it is now contributing to our corporate cash flow.

Your Directors and Management are confident that a successful and substantial resource service corporation can be built from our present asset base. We look forward to the future with confidence.

Respectfully submitted on behalf of the Directors.

A handwritten signature in dark ink, appearing to read 'R. A. McAlpine'.

R. A. McAlpine  
PRESIDENT



# CONSOLIDATED BALANCE SHEET

November 30, 1980

## Assets

	1980	1979
Current assets:		
Cash	\$ 483,000	\$ 181,000
Accounts receivable	2,200,000	355,000
Inventories	586,000	126,000
Agreement receivable, current portion (note 3)	27,000	27,000
Prepaid expenses and deposits	236,000	18,000
Fixed assets held for sale (note 15)	<u>1,300,000</u>	<u>—</u>
	4,832,000	707,000
Agreement receivable (note 3)	27,000	54,000
Property, plant and equipment (note 4)	6,917,000	1,566,000
Oil and gas properties and equipment (note 5)	559,000	466,000
Other assets	<u>140,000</u>	<u>—</u>
	<u>\$12,475,000</u>	<u>\$2,793,000</u>

## Liabilities

Current liabilities:		
Bank advances (note 6)	\$ 1,652,000	\$ —
Accounts payable and accrued liabilities	2,452,000	324,000
Income taxes payable	139,000	6,000
Current portion of long-term debt (note 7)	930,000	230,000
Current portion of deferred revenue (note 8)	<u>25,000</u>	<u>25,000</u>
	5,198,000	585,000
Long-term debt (note 7)	2,941,000	619,000
10% convertible income debentures (note 15)	259,000	—
Deferred revenue (note 8)	25,000	51,000
Deferred income taxes	295,000	169,000
Minority interest	<u>1,925,000</u>	<u>—</u>
	10,643,000	1,424,000

## Shareholders' Equity

Share capital (note 9)	671,000	669,000
Retained earnings	<u>1,161,000</u>	<u>700,000</u>
	1,832,000	1,369,000
	<u>\$12,475,000</u>	<u>\$2,793,000</u>

Commitments and subsequent events (notes 13 and 15)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

R. A. McAlpine Director

R. H. Nicholson Director

# CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended November 30, 1980

	1980	1979
Revenue	<u>\$3,606,000</u>	<u>\$2,914,000</u>
Expenses:		
Operating	1,836,000	1,686,000
Depreciation and depletion	223,000	183,000
General and administrative	523,000	447,000
Interest on long-term debt	<u>195,000</u>	<u>87,000</u>
	<u>2,777,000</u>	<u>2,403,000</u>
Income before income taxes and extraordinary item	<u>829,000</u>	<u>511,000</u>
Income taxes (note 10):		
Current	167,000	28,000
Deferred	<u>126,000</u>	<u>139,000</u>
	<u>293,000</u>	<u>167,000</u>
Income before extraordinary item	536,000	344,000
Realization of income tax benefit resulting from a carryforward of losses	<u>—</u>	<u>10,000</u>
Net income	536,000	354,000
Retained earnings, beginning of year	<u>700,000</u>	<u>421,000</u>
	1,236,000	775,000
Dividends paid	<u>75,000</u>	<u>75,000</u>
Retained earnings, end of year	<u>\$ 1,161,000</u>	<u>\$ 700,000</u>
Earnings per share:		
Income before extraordinary item	<u>\$ .143</u>	<u>\$ .092</u>
Net income	<u>\$ .143</u>	<u>\$ .095</u>

See accompanying notes to consolidated financial statements.



# **CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

For the year ended November 30, 1980

	1980	1979
Funds provided:		
From operations	\$ 859,000	\$ 621,000
Payment received on agreement receivable	27,000	27,000
Proceeds from long-term debt	455,000	375,000
Realization of income tax benefit resulting from a carryforward of losses	—	10,000
Decrease in subsidiary's investment in parent company's shares	2,000	1,000
Proceeds from sale of property, plant and equipment	81,000	54,000
	<u>1,424,000</u>	<u>1,088,000</u>
Funds used:		
For acquisition (note 2):		
Non-fund assets acquired (net of minority interest)	3,374,000	
Less long-term debt acquired	<u>2,372,000</u>	
Working capital used in acquisition	1,002,000	
Purchases of property, plant and equipment	445,000	767,000
Purchases of oil and gas properties and equipment	145,000	157,000
Reduction of long-term debt	245,000	251,000
Dividends paid	<u>75,000</u>	<u>75,000</u>
	<u>1,912,000</u>	<u>1,250,000</u>
Decrease in working capital	488,000	162,000
Working capital, beginning of year	<u>122,000</u>	<u>284,000</u>
Working capital (deficiency), end of year	<u>\$ (366,000)</u>	<u>\$ 122,000</u>

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1980

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## 1. SIGNIFICANT ACCOUNTING POLICIES:

To facilitate the understanding of data included in the financial statements, the significant accounting principles and practices followed by the Company and its subsidiaries are set forth below:

### (a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

Sil Silica Ltd. (Silica) — 100%

Clarepine Resources Ltd. — 100%

Strathcona Resource Industries Ltd., formerly Kaps Transport Ltd., (Strathcona) — 54.35%.

All material inter-company transactions have been eliminated.

### (b) Inventories

Inventories are valued at the lower of cost and net realizable value.

### (c) Property, plant and equipment

Additions and improvements are capitalized at cost, whereas expenditures for maintenance and repairs are charged to expense. Items of property, plant and equipment retired or otherwise disposed of are removed from the asset and accumulated depreciation accounts and any gains or losses are reflected in income.

Depreciation is calculated using the declining balance and straight-line methods to charge the cost of fixed assets, less estimated salvage value, to operations over their useful operating lives, which are currently estimated as follows:

Buildings	10 to 30 years
Manufacturing and processing equipment	10 to 20 years
Automotive and mobile equipment	2 to 10 years
Other equipment	5 to 10 years

### (d) Oil and gas properties

The Company follows the full cost method of accounting for its oil and gas properties, whereby all costs related to the acquisition, exploration and development of oil and gas reserves are capitalized. The costs are being depleted using the unit production method based on estimated reserves as determined by the Company. Depreciation of production equipment is calculated using the declining balance method at a rate of 10% to charge the cost of such equipment to operations over its estimated useful operating life.

### (e) Income taxes

Deferred income taxes arise from timing differences in recognizing income for accounting and tax purposes, principally depreciation and depletion.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1980

## 2. ACQUISITION:

On November 27, 1980, Silica entered into an agreement to sell its business and specified net assets to Strathcona.

The details of the transaction are as follows:

Assets sold:

Land	\$ 568,000
Silica processing plant and transportation equipment	2,600,000
Gas wells	750,000
Goodwill	<u>2,507,000</u>
	6,425,000

Long-term debt assumed by Strathcona	<u>463,000</u>
	<u>\$5,962,000</u>

Consideration received:

Cash on closing	\$ 262,000
Note receivable	900,000
7,754,442 common shares of Strathcona	<u>4,800,000</u>
	<u>\$5,962,000</u>

The transaction resulted in Silica acquiring 52.33% of the outstanding shares of Strathcona which, together with the interest previously owned by the Company, results in its interest of 54.35%.

The business combination has been accounted for by the purchase method. The assets, liabilities, revenues and expenses of Strathcona, have been consolidated with those of the Company commencing November 30, 1980 as follows:

Assets acquired	<u>\$8,656,000</u>
Liabilities assumed	\$6,731,000
Minority interest	<u>1,925,000</u>
	<u>\$8,656,000</u>

## 3. AGREEMENT RECEIVABLE:

The receivable, arising in 1976 on the sale by a subsidiary of its net current assets and operations, is due in annual instalments of \$27,000 with interest at 10%, secured by hypothecation of the shares of the acquirer.



#### 4. PROPERTY, PLANT AND EQUIPMENT:

	Cost		Net Book Value	
	1980	1979	1980	1979
Land	\$ 3,249,000	\$ 482,000	\$3,249,000	\$ 482,000
Buildings	1,636,000	164,000	1,245,000	106,000
Manufacturing and processing equipment	2,066,000	825,000	804,000	304,000
Automotive and mobile equipment	4,832,000	922,000	2,784,000	648,000
Other equipment	402,000	54,000	135,000	26,000
	<u>\$12,185,000</u>	<u>\$2,447,000</u>	8,217,000	1,566,000
Fixed assets held for sale (note 15)			1,300,000	—
			<u>\$6,917,000</u>	<u>\$1,566,000</u>

#### 5. OIL AND GAS PROPERTIES AND EQUIPMENT:

	Cost		Net Book Value	
	1980	1979	1980	1979
Producing properties	\$ 333,000	\$ 333,000	\$ 201,000	\$ 229,000
Production equipment	253,000	170,000	203,000	144,000
	586,000	503,000	404,000	373,000
Properties under exploration and development	155,000	93,000	155,000	93,000
	<u>\$ 741,000</u>	<u>\$ 596,000</u>	<u>\$ 559,000</u>	<u>\$ 466,000</u>

#### 6. BANK ADVANCES:

Bank advances to Strathcona are secured by trade accounts receivable and inventory, and a second specific and floating charge on certain land, buildings and other assets and undertakings.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1980

### 7. LONG-TERM DEBT:

	1980	1979
Debenture, secured by a specific first charge on land, buildings and mobile equipment and a first floating charge on all other assets and undertakings of Strathcona except for trade receivables and certain inventory where the charge will be second to bank advances, due in monthly instalments of principal and interest (13%) of \$39,117 maturing February 21, 1984	\$2,131,000	—
Bank loan, secured by a \$500,000 fixed and floating charge debenture, assignment of revenue from certain oil and gas properties and assignment of insurance proceeds on plant and equipment, due in monthly principal instalments of \$1,890 with interest at Canadian bank prime plus 1 ½ %	414,000	187,000
Bank loan, secured by a \$250,000 fixed and floating charge debenture, due in monthly principal instalments of \$2,085 with interest at Canadian bank prime plus 1 ½ %	190,000	215,000
Finance contracts, secured by specific charges on automotive equipment, due in monthly instalments of principal and interest of \$46,600 including interest at various rates, maturing on various dates from 1981 to 1983	1,094,000	399,000
Other	42,000	48,000
	3,871,000	849,000
Instalments of principal due within one year	930,000	230,000
	<u>\$2,941,000</u>	<u>\$ 619,000</u>

Annual repayment of long-term debt due in each of the next five years is:

1981	—	\$ 930,000
1982	—	702,000
1983	—	483,000
1984	—	1,329,000
1985	—	25,000

### 8. DEFERRED REVENUE:

The gain on sale of operations of the subsidiary (note 3) is taken into income in equal amounts of \$25,000 per year.



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9. SHARE CAPITAL:

Authorized 10,000,000 common  
shares without par value

	1980		1979	
	shares	\$	shares	\$
Issued	3,755,000	671,000	3,755,000	671,000
Less shares held by subsidiary	<u>1,422</u>	<u>—</u>	<u>9,010</u>	<u>2,000</u>
	<u>3,753,578</u>	<u>671,000</u>	<u>3,745,990</u>	<u>669,000</u>

During the year, Clarepine granted options to three officers to acquire 110,000 of its shares at 62c per share exercisable on or before March 31, 1982.

10. INCOME TAXES:

- (a) Income tax expense is less than the amount calculated by applying the statutory tax rate to income before income taxes due to the availability of resource allowance and earned depletion deductions.
- (b) Strathcona Resource Industries Ltd. has tax loss carry forwards available for application against future years' taxable incomes amounting to approximately \$2,969,000.

These loss carry forwards expire as follows:

1981	\$ 389,000
1982	81,000
1983	55,000
1984	—
1985	1,034,000
1986	910,000

The undepreciated capital cost of depreciable fixed assets exceeds their net book value by \$3,852,000.

The tax value of one of Strathcona's investments exceeds its book value by \$1,000,000.

11. CONTINGENT ASSET:

The investment referred to in note 10(b) was written off in 1976 and 1977 when it was considered doubtful that Strathcona would ever realize any amount from the investment. While it is still uncertain what amount will ultimately be realized, a recent independent valuation has determined the current value to be in excess of \$1,000,000.

12. REMUNERATION OF DIRECTORS:

The aggregate direct remuneration paid by the Company to the directors and officers was \$190,000 (\$152,000 in 1979).

13. COMMITMENTS:

The Company is committed to annual expenditures of \$135,000 for leased premises.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1980

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## 14. INDUSTRY SEGMENT INFORMATION:

All revenues for the year ended November 30, 1980 were generated by the silica processing operation. On November 27, 1980 the Company acquired an additional interest in the steel fabrication and transportation operations of Strathcona.

The Company's property, plant and equipment was employed as follows at November 30, 1980:

Steel fabrication	\$3,816,000
Transportation	1,343,000
Silica processing	<u>1,758,000</u>
	<u>\$6,917,000</u>

## 15. SUBSEQUENT EVENTS:

From December 1, 1980 to December 31, 1980 \$218,000 of the 10% convertible income debentures were converted into common shares of Strathcona at \$.75 per common share. On December 31, 1980, the remaining outstanding debentures were redeemed.

Subsequent to November 30, 1980, Strathcona sold or committed for sale various assets of the transportation segment. The net book value of these items amounting to \$1,300,000 has been removed from the fixed assets and related accumulated depreciation accounts and recorded as fixed assets held for sale.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Clarepine Developments Ltd. as at November 30, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*  
*Chartered Accountants*

Edmonton, Canada  
March 2, 1981



# CLAREPINE DEVELOPMENTS LTD.

## FIVE YEAR REVIEW

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(in 000's)	1980	1979	1978	1977	1976
Working Capital	\$ (366)	\$ 122	\$ 284	\$ (48)	\$ 111
Property, Plant and Equipment	6,917	1,566	979	878	544
Oil and Gas Properties and Equipment	559	466	345	327	141
Other Assets	142	3	5	8	9
Long-Term Debt	3,200	619	495	254	147
Deferred Taxes	295	169	30	51	16
Minority Interest	1,925	—	—	—	—
Shareholders Equity	1,832	1,369	1,088	860	642
Revenue	3,606	2,914	2,145	1,807	1,518
Expenses	2,777	2,403	1,905	1,470	1,282
Income Taxes	293	167	56	133	85
Extraordinary Items	—	10	44	9	(59)
Net Income	536	354	228	213	92
Dividends	75	75	—	—	—
Earnings per share					
Before extraordinary items	14.3¢	9.2¢	4.9¢	5.5¢	4.0¢
Net Income	14.3¢	9.5¢	6.1¢	5.7¢	2.5¢
Cash Flow per share					
from operations	22.9¢	16.5¢	9.4¢	10.7¢	8.0¢
Shareholders equity per share	48.8¢	36.5¢	29.0¢	22.9¢	17.1¢

# CORPORATE INFORMATION

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## DIRECTORS

J. H. Binnie, P.Eng.  
Petroleum Consultant  
Victoria, B.C.

D. M. Chisholm  
Chartered Accountant  
Edmonton, Alberta

R. A. McAlpine, P.Eng.  
President and Chief Executive Officer  
Clarepine Developments Ltd.,  
and Strathcona Resource  
Industries Ltd.  
Edmonton, Alberta

R. H. Nicholson  
Businessman  
Vancouver, B.C.

## OFFICERS AND SENIOR MANAGEMENT

R. A. McAlpine  
President and Chief Executive Officer

J. R. Sheard  
Vice-President Finance and Secretary-Treasurer

L. D. Johnston  
Vice-President Marketing and Business Development  
and Vice-President Manufacturing Operations,  
Strathcona Resource Industries Ltd.

P. J. Levasseur  
Vice-President Silica Operations,  
Strathcona Resource Industries Ltd.

W. A. McDonald  
Vice-President Transport Operations,  
Strathcona Resource Industries Ltd.

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## EXECUTIVE OFFICE

9305 - 50th Street  
Edmonton, Alberta T6B 2L5  
(403) 465-9851

## TRANSFER AGENT

Canada Trust Company  
Calgary, Alberta

## ANNUAL MEETING

11:00 A.M. on Friday, May 15, 1981  
at the Executive Office of the Company

## STOCK LISTED

Alberta Stock Exchange

## AUDITORS

Peat, Marwick, Mitchell & Co.





